

H-3120-1 - COMPETITIVE LEASES

KeywordsIV. Compensatory Royalty Agreements

A compensatory royalty agreement (CRA) may be entered into for lands which are not otherwise leasable, i.e., lands withdrawn from the mineral leasing laws or lands that are legally leasable but are not suitable for leasing, e.g., environmental concerns that prohibit leasing (see 43 CFR 3100.2 and Handbook 3100-1, Chapter 2).

COMPENSATORY
ROYALTY
AGREEMENTS

The ALMRS Case Type for compensatory royalty agreements in drainage situations is 318120. The existing data standards are to be used to enter each drainage CRA into the ALMRS Case Recordation/Record System Release 1.0.

AUTOMATED
NOTATION

A CRA also may be entered into in lieu of leasing where the United States owns both a present and a future fractional interest in the same tract which contains a producing well (see 43 CFR 3120.7-3). This situation is not common.

The ALMRS Case Type for this category of compensatory royalty agreement is 318110. The existing data standards are to be used to enter each such CRA into the ALMRS Case Recordation/Record System Release 1.0.

AUTOMATED
NOTATION

An example situation for use of a CRA is when the conveyance to the United States contains a reservation for a period of years of an area of 25 acres surrounding any producing well. The terms and conditions of such a CRA will be established on a case-by-case basis. Generally, the United States would agree not to lease that portion of the tract in which it owns the mineral rights, in consideration for a pro rata share of the royalty from the production of the well on that portion of the tract in which it owns a future interest. Assuming that the tract involves a 40-acre subdivision which is subject to the "25-acre" reservation, the United States would own the present mineral rights in 15 acres and a future interest in 25 acres in that tract. In such a case, compensatory royalty of one-eighth of fifteen-fortieths might be acceptable.

CRA
TERMS AND
CONDITIONS

A lease form is not used for CRA's. See Handbook 3100-1, Chapter 2 for an example compensatory royalty agreement.

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